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ABSTRACT

This report reviews fiscal and program operations of the National Technical Institute for the Deaf (NTID), operated by the Rochester Institute of Technology (RIT) in Rochester, New York. The report found that some NTID expenditures of federal funds were for purposes not directly related to operating NTID as required. While total enrollment at NTID had declined about nine percent since the 1987-88 academic year, the percentage of NTID students enrolled in academic programs at other RIT colleges had increased from 20 percent to 30 percent. The costs to NTID for paying tuition and providing support services such as interpreting and note-taking for these students took an increasingly larger share of NTID's financial resources. NTID's faculty who teach technical courses had decreased only marginally, despite a 20 percent decrease in the number of students enrolled in NTID's technical programs. NTID's federal matching endowment fund, set up by Congress to promote the Institute's financial independence, will not significantly decrease NTID's reliance on federal financial support in the near future. Although the Education of the Deaf Act has required reviews of NTID since 1986, the Department of Education has not conducted evaluations of NTID's education programs and administrative operations, and RIT has not had independent audits performed of NTID's programs and activities. Appendices provide statistical data and background information relating to the study along with comments from the Department of Education and from RIT. (JDD)

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United States General Accounting Office

GAO

Report to Congressional Committees

December 1993

DEAF EDUCATION

Improved Oversight Needed for National Technical Institute for the Deaf

ED 370 316

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United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-249866

December 16, 1993

The Honorable Tom Harkin
Chairman, Subcommittee on Labor,
Health and Human Services,
Education, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Arlen Specter
Ranking Minority Member, Subcommittee
on Labor, Health and Human Services,
Education, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable William H. Natcher
Chairman, Subcommittee on Labor,
Health and Human Services,
Education, and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable John E. Porter
Ranking Minority Member, Subcommittee
on Labor, Health and Human Services
Education, and Related Agencies
Committee on Appropriations
House of Representatives

The National Technical Institute for the Deaf Act of 1965 authorized the Secretary of the former Department of Health, Education, and Welfare to enter an agreement with an institution of higher education to establish and operate a postsecondary education program of technical training and education to prepare deaf individuals for successful employment. Subsequently, the Department and the Rochester Institute of Technology (RIT) in Rochester, New York, entered an agreement in December 1966 designating RIT as the host institution responsible for establishing and operating the National Technical Institute for the Deaf (NTID). The Department of Education assumed responsibility in fiscal year 1980 for administering the agreement and overseeing NTID. Currently, the Assistant Secretary for Special Education and Rehabilitative Services performs these responsibilities.

This report responds to the Senate and House reports on Education's 1992 appropriations and subsequent discussions with your offices that called for our office to review NTID's fiscal and program operations. As agreed, our objectives were to (1) determine if NTID properly spends and accounts for federal funds, (2) assess NTID's long-term financial needs, and (3) evaluate Education's monitoring and evaluation of NTID.

To address these issues, we reviewed NTID's and RIT's financial records and obtained information on NTID's enrollment and staffing. We also met with Education and Department of Health and Human Services (HHS) officials to discuss their responsibilities concerning NTID's fiscal and program operations. We conducted our work between June 1992 and April 1993 in accordance with generally accepted government auditing standards. (See app. I for details on our objectives, scope, and methodology.)

Results in Brief

NTID has not adequately accounted for its expenditure of federal funds, has inappropriately carried over federal funds from one year to the next, and it may have used federal funds improperly. NTID commingled federal funds with nonfederal funds, making it impossible to determine how federal funds were spent. At the end of recent fiscal years, NTID, contrary to an understanding with Education, carried over unobligated federal funds totaling more than $2.9 million to be spent in later years. In addition, if federal funds were used, expenditures totaling more than $32,000 for entertainment and gifts during fiscal years 1990 through 1992 were imprudent because of the amount or type of the expenditure. However, because NTID has not maintained separate accounts for its expenditures of federal and nonfederal funds, we could not determine with certainty whether NTID used federal funds for a particular expenditure.

Although restrictions on the use of federal funds that apply to federal agencies and those that apply to grantees do not apply to NTID, some NTID expenditures were for purposes not directly related to operating NTID, as required by the agreement for NTID and by the Education of the Deaf Act of 1986 (EDA).[1] To ensure that its federal funds are used properly, NTID has recently (1) established separate accounts to track the expenditure of federal and nonfederal funds and (2) developed policies on the expenditure of federal funds modeled after the policies that apply to educational institutions and other organizations that receive federal grants.

[1]The Education of the Deaf Act of 1986 replaced the National Technical Institute for the Deaf Act of 1965.

Education and NTID officials believe that the Institute's dependence on federal funds is likely to continue at its present level of 83 percent of total revenues despite program changes that have occurred. While total enrollment at NTID declined about 9 percent since the 1987-88 academic year, the percentage of NTID students enrolled in academic programs at other RIT colleges has increased from 20 percent to 30 percent. The costs to NTID for paying tuition and providing support services, such as interpreting and note taking, for these students takes an increasingly larger share of NTID's financial resources. Also, NTID's faculty who teach technical courses has decreased only marginally despite a 20-percent decrease in the number of students enrolled in NTID's technical programs. Although NTID's Strategic Plan calls for eliminating some technical programs, it calls for reallocating NTID resources to other programs rather than reducing them. In addition, NTID's federal matching endowment fund, set up by the Congress to promote the Institute's financial independence, will not significantly decrease NTID's reliance on federal financial support in the near future. Contributing to this problem are the relatively high costs that RIT charges NTID for fund-raising services and the restrictions that RIT imposes on NTID's fund-raising efforts.

Review of NTID has been minimal. Although EDA has required such reviews since 1986, Education has not conducted evaluations of NTID's education programs and activities and administrative operations, and RIT has not had independent audits performed of NTID's programs and activities. Financial audits of RIT and reviews of RIT's indirect cost charges to NTID by HHS's Division of Cost Allocation are limited in scope and, therefore, are of little use to Education as tools for overseeing NTID. In addition, Education is not using the information it receives from NTID to assess the Institute's programs and activities.

The EDA Amendments of 1992 and 1993 include provisions to facilitate Education's monitoring and evaluation of NTID's use of federal funds and should improve Education's oversight of NTID's spending.

Background

NTID is one of RIT's eight colleges. Since 1968, it has prepared deaf students for employment in technical careers such as data processing, engineering technology, and photo/media technologies. NTID's technical programs lead to certificates, diplomas, and associate degrees. For the academic year

1992-93, NTID's enrollment was 1,130 students, including 45 foreign students.[2] From 1969 through 1991, NTID awarded 3,073 technical degrees.

Qualified NTID students may cross register in undergraduate or graduate courses and pursue a bachelor's or master's degree at other RIT colleges. For the 1992-93 school year, 338 of NTID's 1,130 students (30 percent) cross registered in RIT courses. From 1969 to the end of 1991, NTID students obtained 643 bachelor's or master's degrees from RIT.

Federal funds make up most of NTID's annual operating revenues. From fiscal year 1987 through fiscal year 1992, federal funds appropriated specifically for operating NTID averaged about 83 percent of NTID's annual revenues. The remaining 17 percent came primarily from student charges for tuition, room, and board. In fiscal year 1992, NTID's total operating revenues of $47.3 million included its $39.1 million federal appropriation (about 83 percent) for operations and $8.2 million (about 17 percent) from other sources.

The Congress also appropriates funds, as necessary, for capital construction projects at NTID and, annually since fiscal year 1987, for NTID's federal matching endowment program. In fiscal year 1992, the Congress appropriated $342,000 for NTID's federal endowment program to match nonfederal endowment funds raised for NTID. No funds were appropriated for new capital construction at NTID in 1992.

As a part of RIT, NTID staff and faculty are employees of RIT, which provides services to NTID. Personnel costs and the costs of services that RIT provided in fiscal year 1992 were $41.1 million, 87 percent of NTID's total operating costs. Of this $41.1 million, salaries, wages, and benefits accounted for $26.8 million (57 percent of the total operating costs), while charges for NTID's use of RIT facilities and services accounted for $14.3 million (30 percent of the total). All other costs, such as supplies, equipment, travel, and student financial aid in fiscal year 1992 totaled about $6.0 million, 13 percent of NTID's operating costs.

The agreement between RIT and Education and the EDA govern the operation and federal oversight of NTID. Under the law and the agreement, RIT is responsible for managing NTID's programs, and NTID is to report

[2]These students, mainly from Canada, account for about 4 percent of NTID's student body—well below the maximum level of 10 percent established by the 1992 EDA amendments. For the 1992-93 academic year, each foreign student paid $5,378 in tuition, including a 50-percent surcharge. This surcharge is scheduled to increase to 75 percent for the 1993-94 academic year and to 90 percent for the 1994-95 academic year.

annually to Education on its operations. Education is responsible for overseeing NTID's programs and activities and managing its facilities.

Each year, NTID submits to Education for review and approval its budget proposal and request for federal operating, capital construction, and endowment matching funds. Education then includes funds for NTID in its budget proposal to the Office of Management and Budget (OMB) and, ultimately, in the President's budget to the Congress. During the year, when requested by RIT, Education draws funds appropriated by the Congress for NTID from the U.S. Treasury and distributes them to RIT.

The EDA authorizes federal funding for NTID. The 1992 EDA amendments extend the EDA's authorization for NTID through fiscal year 1997. They also contain provisions to improve the administration of NTID and increase accountability for federal funds provided to it. The 1993 amendments contain provisions to improve federal financial audits of NTID.

NTID Has Not Adequately Accounted for Its Federal Funds

RIT's and NTID's accounting procedures have not adequately accounted for the expenditure of federal funds appropriated for operating NTID. Rather than using separate accounts for expenditures of federal funds and nonfederal funds, NTID commingled the funds it received from all sources. This commingling made it impossible to determine with certainty whether NTID used federal funds for a particular expenditure.

NTID is not subject to the accounting requirements that apply to federal agencies or those that apply to grantees. Only the EDA and the agreement governing NTID's establishment and operation govern NTID's expenditure of and accounting for its federal funds. Further, the law and the agreement implicitly preclude other rules from applying.

Federal agencies must document, at a minimum, their use of federal funds for the purposes for which they are provided. Similarly, grantees are subject to federally prescribed accounting principles and standards that require them to account for their use of federal funds.

Federal funds are appropriated for NTID in much the same way as for federal agencies. However, the accounting requirements that apply to agencies do not apply to NTID because NTID is a private, not a federal, entity. Also, NTID's relationship with the federal government closely resembles that of a grantee. However, rules governing grants do not apply

to NTID because the funding for NTID is in the nature of a direct appropriation, not an award of money by a federal agency.

The act and the agreement for NTID require that NTID's expenditures of federal funds must be in accordance with the purposes for which the Congress appropriated them—that is, for operating NTID. The agreement also provides that RIT follow its normal fiscal practices in operating NTID. RIT's accounting system maintains accounts for NTID revenues and expenditures separately from its own accounts, but it did not have separate expenditure accounts for federal and nonfederal funds.

NTID and RIT officials have made changes in their accounting systems and procedures, and others are planned, to ensure that NTID can account for its expenditures of federal funds in the future. They said that a separate expenditure account has been established to use nonfederal funds for the payment of items for which federal funds cannot be used.

NTID Was Allowed to Carry Over Federal Funds From One Fiscal Year to the Next Based on Incorrect Certifications

Relying on RIT's incorrect certifications that all federal operating funds for NTID had been obligated by NTID in a particular fiscal year, Education allowed NTID to carry over to subsequent fiscal years funds that would otherwise have been returned to the Treasury. This was contrary to the understanding between NTID and Education that unobligated funds would not remain available to NTID. During the 5-year period covered by our review—fiscal year 1988 through fiscal year 1992—NTID carried over funds totaling about $2.92 million, an average of about $584,000 per year. The amounts carried over during the period ranged from $127,443 in 1991 to $863,192 in 1990. (See app. II for details.) As of March 1993, $268,414 remained unexpended from the accumulation of carryover funds since fiscal year 1988.

According to the understanding between NTID and Education, federal operating funds for NTID that are not expended or obligated by NTID within the fiscal year for which they are appropriated are to be returned to the Treasury. Funds are considered obligated if they are committed for a specific purpose and the commitment is documented by a binding agreement of some kind, such as a contract.

At the end of each fiscal year from 1988 through 1992, RIT certified to Education that NTID had expended or obligated all of that year's federal appropriation for operating NTID during the fiscal year. However, this was not the case. At the end of each year, NTID recorded as an "expenditure for

deferred maintenance" all of the federal funds appropriated for the year that it had not spent or obligated. As a result, these funds remained available to NTID to be used in future years. NTID officials told us that it carried over funds in this way to reserve them for future maintenance projects or contingencies. For its purposes, NTID considers funds to be obligated when it decides to use the funds for a specific purpose, even if no binding agreement committing the funds exists.

NTID used some carry-over funds to finance projects in subsequent years that Education specifically disapproved during its annual reviews of NTID's budget proposal. For example, in 1992 NTID used carryover funds to install strobe alarm lights in RIT dormitories where NTID students were living. Education had disapproved NTID's request for funds to install these lights in its fiscal year 1992 budget proposal. Education agreed that the lights should be installed but said that RIT should pay for such improvements to its facilities with its money. NTID disagreed and, without obtaining Education's approval, paid about 97 percent of the $385,500 cost of the lights using federal funds carried over from fiscal year 1990. RIT paid the remaining 3 percent of the cost.

Some NTID Expenditures May Have Been Imprudent or Inappropriate

Some NTID expenditures during fiscal years 1990-92, if they involved federal funds, are questionable. However, because NTID did not separately account for its expenditures of federal and nonfederal funds, we cannot say for sure that NTID used any federal funds for these expenditures. Some appear to have been imprudent because of the amount or type of the expenditure. Other expenditures were for purposes for which, because they were not directly related to operating NTID, federal funds may not be spent. Some of these also raise conflict-of-interest questions.

NTID made payments in fiscal years 1990-92 for entertainment and items that it purchased to distribute as personal gifts. Entertainment expenses included payments of about $24,000 for meals between July 1990 and June 1992 that NTID paid to one Rochester restaurant. For example, in December 1991 NTID hosted a meal for 11 individuals in honor of Russian visitors that cost $706, or $64 a person. Also, a June 1992 dinner in honor of NTID staff who received doctoral degrees cost $617 for 11 persons. Another dinner for four, which cost $120, was to celebrate a former NTID employee's wedding. In addition, one NTID department's holiday luncheon in December 1991 cost $1,146, an average of $34 a person. Examples of items purchased as gifts to visitors and staff included liquor store

purchases totaling more than $3,000 and various ceramic items, such as vases and jars, that cost $5,400.

NTID made payments to, or on behalf of, nonprofit organizations that did not directly relate to the operation of NTID. These payments included donations to a local hospital. In addition, NTID paid $10,000 for a table at a fund-raising dinner for a national nonprofit organization that promotes the general well-being of deaf people. The organization's president is NTID's director. In another example, NTID paid $15,848 on behalf of another nonprofit organization, which promotes awareness of deaf people in foreign countries, for round-trip expenses for Chinese visitors to NTID. NTID's director is also the president of this organization, and NTID's director of financial planning and budgeting is its treasurer. Ten months later the organization repaid NTID the $15,848.

The relationship between NTID and these organizations raises concern about possible conflicts of interest. The senior NTID officials affiliated with and holding officer positions in these organizations have some control over the expenditure of funds by both NTID and the organizations. RIT's ethics policy prohibits even the appearance of a conflict of interest by any of its employees. In commenting on a draft of this report, RIT said that the ethics policy for RIT executives prohibits conduct by executives that causes detriment or the appearance of detriment to RIT. The relationship between NTID officials and the nonprofit organizations that we described, they said, does not violate its ethics policy for its executives and is not detrimental to RIT.

As discussed above, because NTID did not separately account for its use of federal funds, it was not possible to determine which expenditures involved federal funds. Another problem is that, if NTID used federal funds, it is not subject, as mentioned previously, to restrictions on the use of federal funds that apply to federal agencies or to those that apply to grantees. The EDA and the agreement for NTID, which govern NTID's expenditure of federal funds, provide only that NTID's expenditures of federal funds be in accordance with the purposes for which the Congress appropriated them—that is, for operating NTID. Moreover, RIT's cost criteria, which, under the agreement for NTID, apply to NTID, are less restrictive than the federal cost criteria for grantees.

The 1992 EDA amendments address some of these expenditures. For example, the amendments specifically prohibit NTID from using federal funds to purchase alcohol after September 30, 1992. The amendments also

require NTID to develop policies on the allowability and reasonableness of expenditures modeled after principles established by OMB.

In February 1993, NTID and RIT officials told us that, based on RIT's internal auditors' reviews of some of NTID's expenditures and the requirements of the 1992 EDA amendments, some of NTID's spending policies have been changed, such as on the purchase of alcohol—now prohibited. According to these officials, these policy changes and new policies on entertainment, gifts, and affiliations with outside organizations would be included in NTID's cost principles called for in the 1992 amendments. NTID submitted these policies to Education in May 1993 and intended to implement them in October 1993.

Some RIT Charges to NTID Are Inappropriate

Some charges to NTID for costs associated with using RIT's services and facilities (for which NTID reimbursed RIT) were, while small in amount, inappropriate. Examples included overhead and dormitory costs.

RIT's overhead charges to NTID for fiscal years 1991 and 1992 included costs that should not have been charged to NTID. Although RIT does not charge NTID for the direct cost of lobbyists, its overhead charges to NTID included a portion of the cost of RIT staff and other costs related to lobbying activities. Based on our work, RIT agreed to adjust its overhead calculations to exclude these charges in the future.

Also, RIT charged NTID for more than the cost of housing NTID students. To promote the integration of NTID's deaf students and RIT's hearing students, RIT and NTID students may live in any dormitory they choose. Under this arrangement, regardless of which dormitory they live in, RIT students pay room fees to RIT, and NTID students pay room fees to NTID. Also, RIT charges NTID the full cost of operating NTID's dormitory, including costs for supplies, maintenance, and utilities, even when RIT students live there. When more RIT students live in the NTID dormitory than NTID students live in the RIT dormitories, RIT does not credit or reimburse NTID for the costs of operating the dormitory with these additional RIT students. Each academic quarter from the fall of 1987 to the winter of 1993, an average of 64 more RIT students lived in NTID's dormitory than NTID students lived in RIT's dormitories. (See app. III for the specific number for each quarter.)

NTID's Need for Federal Financial Support Will Continue

Education and NTID officials expect that NTID's dependence on federal financial support for its operations will continue at about the same level as it has for the past several years. They also expect the federal government to continue to provide about the same proportion, currently 83 percent, of NTID's operating revenues.

Cross Registration Is Increasing and Costly

The number of cross-registered students at NTID has increased by about 34 percent since the 1987-88 academic year, even as NTID's overall enrollment declined by 9 percent. These cross-registered students accounted for 20 percent of NTID's enrollment for the 1987-88 academic year (252 of a total of 1,245), but they accounted for 30 percent in the 1992-93 academic year (338 of a total of 1,130). NTID's Strategic Plan, adopted in June 1992, calls for NTID to maintain or increase the percentage of cross-registered students through the 1990s. (For further details on NTID's Strategic Plan, see app. IV.)

Cross-registered NTID students enroll in NTID, but most of them take only a few courses there. Most cross-registered students require support services, such as interpreting, note taking, and tutoring, when attending RIT courses. (NTID requires its newly hired teaching faculty to be proficient in sign language within 3 years, but RIT has no such requirement for its permanent faculty.)

NTID pays the entire cost of these support services, and they have steadily increased since 1988. In addition to interpreting and other support services, NTID pays tuition to other RIT colleges for courses taken by its cross-registered students.[3] In fiscal year 1992, NTID paid about $1.7 million for tuition, $1.9 million for interpreting services, and $2.0 million for support teams for its cross-registered students. This amounted to $5.6 million, about $19,000 to support each of the 293 cross-registered students for the 1991-92 academic year.

The increase in the number of NTID cross-registered students is a major reason for the increased demand for interpreting services—one of NTID's

[3]Because NTID already pays its share of operating RIT, it is required to pay only the portion of tuition that covers the cost of providing academic instruction. For fiscal year 1991, this averaged $150 a credit hour.

fastest growing expenses.[4] NTID expects the cost of interpreting services to continue to rise significantly. Increased demand for these services may force NTID to raise its interpreters' salaries. In December 1992, these salaries averaged about $21,000 a year, a 33-percent increase since 1989. To supplement its interpreting staff, NTID contracts with outside agencies for interpreting services. In fiscal year 1992, contracting for these services cost NTID about $453,000, more than double the expense in fiscal year 1991. NTID officials estimate that the cost of interpreting services may rise from $3.2 million in fiscal year 1992 to $4.2 million by fiscal year 1996.

The cost of educating cross-registered students is compounded by the inability of NTID technical students to transfer most of the academic credits earned at NTID toward a degree at other RIT colleges. We identified 54 students who graduated with a bachelor's degree from RIT between 1987 and 1991 and previously earned an associate degree from NTID. On average, about 50 percent of the credits these students earned at NTID were transferable. NTID has recognized that the low acceptance of NTID courses for credit by other RIT colleges is a problem. Increased acceptance of NTID credits would not only save the costs for tuition and support services but also time because students would graduate sooner. NTID has identified the need to increase the transferability of credits from NTID to RIT as an issue to be addressed in its Strategic Plan.

NTID Faculty Has Not Decreased Proportionately With Enrollment Decreases

As the number of cross-registered students increased over the years, the number of students enrolled in NTID's technical programs decreased from 993 for the 1987-88 academic year to 792 for the 1992-93 academic year, a decline of about 20 percent. However, NTID's teaching faculty declined only slightly from 155 to 149 during this period. As a result, the student/faculty ratio at NTID decreased from 6.4:1 in fiscal year 1987 to 5.3:1 in fiscal year 1992. Although NTID's Strategic Plan calls for the elimination of some technical programs, the primary focus of this plan is on reallocating NTID resources to other programs, rather than reducing them. (See app. IV.)

NTID's Endowment Will Not Offset the Need for Federal Support Soon

NTID's endowment program will not significantly decrease NTID's dependence on federal financial support in the near future. The 1986 EDA authorized NTID to establish an endowment fund to promote the financial

[4]Another reason was NTID's strategy to reduce the occurrence of repetitive motion injuries among its interpreters. NTID reduced the number of hours that an individual could interpret each week from 25 to 20. This resulted in NTID's hiring 18 additional interpreters in 1990. The strategy appears successful because the number of NTID interpreters with repetitive motion injuries decreased from 38 in June 1990 to 5 in January 1993.

independence of NTID. Since fiscal year 1987, the Congress has appropriated more than $1.3 million for NTID to use to match nonfederal funds it raises for the endowment program. The fund also includes funds raised before the establishment of the federal endowment program.

The endowment fund's principal is to remain unspent, except in financial emergencies, but NTID may spend up to 50 percent of the fund's prior year income for current operating purposes. NTID uses its endowment income primarily to fund student scholarships. However, the scholarships do little to reduce NTID's operating costs. The endowment income for fiscal year 1992 totaled about $147,000, of which about $73,500 could be used to pay current operating costs. The amount that NTID paid in financial aid to students during fiscal year 1992 totaled about $869,000.

NTID's endowment fund-raising is costly. In 3 of the 5 fiscal years since 1987 when the federal endowment program began and for the entire 5-year period, RIT charged NTID more for fund-raising expenses than it raised for NTID. RIT conducts fund-raising for NTID and charges NTID for about 24 percent of its total fund-raising costs. NTID's share of these costs is based, primarily, on its proportion—about 24 percent—of the total RIT staff.

From fiscal year 1987 through fiscal year 1991, RIT charged NTID about $2.8 million for fund-raising and raised about $2.1 million for NTID. In 3 of these years (1987, 1988, and 1990), RIT's charges to NTID for fund-raising (almost $1.7 million) nearly doubled the amount raised (almost $.9 million) for NTID. In fiscal year 1991, the last year that cost data were available for our review, RIT raised about $651,000 in cash for NTID, but NTID's share of RIT's fund-raising expenses was about $612,000. By comparison, RIT raised nearly $6.2 million in cash in the same year for its other colleges at a cost of $1.9 million. (See app. V.)

Contributing to this disparity are restrictions that RIT imposes on NTID's fund-raising efforts, so that NTID does not compete with RIT's fund-raising activities for the rest of the university. For example, NTID fund raisers may not solicit funds from contributors previously contacted by RIT without specific permission. In addition, NTID does not receive a share of the unrestricted or major gifts raised by RIT.

Funding Will Be Required for Routine Renovations and Maintenance

NTID will continue to require federal appropriations to cover routine building renovation and maintenance costs. Funds also will be required to provide accommodations for the disabled in existing buildings. According

to its most recent 5-year capital construction plan covering fiscal year 1992 through fiscal year 1996, NTID plans no new building construction through fiscal year 1996. The next major project planned is the 3-year renovation of NTID's dormitory that is scheduled to begin in fiscal year 1994 at an estimated cost of $1.8 million. For fiscal year 1993, NTID received $314,000 in federal funds for construction projects.

Required Federal and External Reviews of NTID Have Not Been Made or Have Been Ineffective

Overall, NTID's programs and financial operations have been subject to minimal review. Education reviews, as part of its annual budget formulation process, programmatic, administrative, and financial information provided by NTID, but neither Education nor RIT have made required evaluations and audits of NTID's education programs and activities. Financial reviews of NTID have been limited. In addition, Education is not using the information it receives from NTID to assess NTID's effectiveness and efficiency. The EDA Amendments of 1992 and 1993 should facilitate Education's monitoring and evaluation of NTID's financial activities and programs and, in future years, Education's oversight of NTID's spending.

Since 1986, the EDA has required Education to conduct monitoring and evaluation activities of NTID's education programs and activities and administrative operations. According to Education officials, the Department has not assigned sufficient staff to perform these activities because of higher priority work. RIT has not had independent audits of NTID's programs and activities performed as the act requires.

As required by the EDA, NTID submits to Education annual reports on the status of its programs and activities. According to Education officials, Education does not use the information reported by NTID to assess the effectiveness and efficiency of NTID or its compliance with the EDA and the agreement with RIT. Rather, Education uses this information primarily to compile statistical information on NTID students and programs.

HHS is responsible for making annual reviews of RIT's allocations of indirect costs to NTID. However, these reviews, conducted by HHS's Division of Cost Allocation, are extremely limited in scope. Essentially, they are limited to (1) verifying the accuracy of the indirect cost allocations and (2) noting changes from the previous year's allocations. Education receives a copy of HHS's annual study of RIT, which documents RIT's methodology for allocating indirect costs to NTID. According to Division of Cost Allocation

officials, their reviews provide little information on NTID's programs and operations.

Financial audits of RIT performed by independent external auditors also monitor NTID. OMB Circular A-133 requires institutions of higher education that receive federal funds to have an audit performed by an independent auditor. The most recent A-133 audit of RIT covered fiscal years 1990 and 1991. The audit focused primarily on RIT's internal control structures and determining whether RIT is managing its federal funds in compliance with the applicable law and regulations, including OMB Circular A-21 cost principles.

Because NTID is not subject to OMB cost principles, RIT's external auditors did not evaluate NTID's compliance with the cost principles. Yet, of the $52.6 million in federal funds received by RIT in fiscal year 1991, $43.7 million was for NTID operations. Officials from Education and HHS's Division of Cost Allocation who received copies of RIT's A-133 audit report told us that this audit report provided little assistance in monitoring NTID's operations.

The 1992 EDA amendments established a system of accountability for federal funds for RIT and NTID. As discussed above, the amendments explicitly preclude the use of federal funds for certain purposes, such as the purchase of alcohol, and require NTID to develop cost criteria, suggesting NTID use OMB Circular A-21 as guidance for the criteria. These criteria are to address general principles relating to the allowability and reasonableness of all costs associated with operating NTID. As also discussed earlier, NTID has made some changes to its accounting system to comply with the act and, in May 1993, submitted a draft proposal for its new policies to Education for review.

The amendments also established a framework for needed improvement concerning federal evaluation of NTID's operations. The amendments imposed specific program and fiscal reporting requirements on NTID. While NTID already provides much of this information, Education will be able to structure the data format to facilitate its review. A report on all NTID indirect costs paid to RIT is to be included in its annual report to Education. In addition, NTID must provide audited financial statements, together with the auditor's report, to Education annually.

The 1992 amendments also require the Secretary of Education and the host institution for NTID, RIT, to assess by October 1993 the need to modify

the agreement for NTID and to update it periodically, as determined necessary by either the Secretary or RIT. RIT and Education have not modified their agreement governing NTID operations since 1980 even though major program and legislative changes have occurred since then. In March 1993, Education notified NTID that it was reviewing the agreement and suggested that RIT initiate its own review of the agreement.

The EDA Amendments of 1993, which were enacted after the completion of our work, require OMB Circular A-133 audits of RIT, beginning in fiscal year 1995, to include specific schedules and analyses for all NTID funds. These schedules and analyses and other supplementary financial information as determined by the Secretary of Education are to be included with the audited financial statements and audit report that NTID provides to Education annually.

Because of the requirements of the 1992 and 1993 EDA Amendments and the actions under way and planned by Education and RIT, we are making no recommendations at this time.

Agency and RIT Comments

Education and RIT provided written and oral comments on a draft of this report. Education generally agreed with our findings. It said that it would more closely monitor NTID to (1) ensure that NTID uses its federal funds appropriately, (2) review NTID's programs and activities, and (3) follow up on NTID's actions to address our findings. Education said it also would use our findings as it works with RIT to assess the need to modify the agreement for operating NTID. (See app. VI.)

In its comments, RIT provided explanatory information regarding its financial and other practices. RIT did not refute our findings but said that the general tone of the report, absent specific cost criteria or specific instructions from Education or the Congress, was too negative with respect to RIT's and NTID's handling of federal funds. (See app. VII.)

Where appropriate, we used the information provided by Education and RIT to clarify and update our report. Education and RIT also provided technical comments on the report draft. We incorporated them as appropriate.

HHS said that it had no comments. (See app. VIII.)

As agreed with your offices, unless you publicly release its contents earlier, we plan no further distribution of this report until 3 days from the date of this letter. At that time we will provide copies of this report to the Secretary of Education, RIT, NTID, the Secretary of Health and Human Services, other interested congressional committees, and the Director of the Office of Management and Budget. Copies will also be provided to others on request. If you or your staff have any questions about the information in this report, please call me at (202) 512-7014. Other major contributors are listed in appendix IX.

Linda G. Morra
Director, Education and
Employment Issues

Contents

Letter	1
Appendix I Objectives, Scope, and Methodology	20
Appendix II Unobligated NTID Funds Carried Over to Subsequent Fiscal Years for Deferred Maintenance Projects, Fiscal Years 1988-92	22
Appendix III Numbers of RIT Students Residing in NTID Dormitory and NTID Students Residing in RIT Dormitories, Calendar Years 1987-93	23
Appendix IV NTID's Strategic Plan	24

Appendix V
Funds Raised and Costs of Fund-Raising for NTID and Other RIT Colleges (in Thousands of Dollars) 25

Appendix VI
Comments From the Department of Education 26

Appendix VII
Comments From the Rochester Institute of Technology 29

Appendix VIII
Comments From the Department of Health and Human Services 41

Appendix IX
Major Contributors to This Report 42

Abbreviations

EDA	Education of the Deaf Act of 1986
HHS	Department of Health and Human Services
NTID	National Technical Institute for the Deaf
OMB	Office of Management and Budget
RIT	Rochester Institute of Technology

Objectives, Scope, and Methodology

The reports of the Senate and House Committees on Appropriations' Subcommittees on Labor, Health and Human Services, Education, and Related Agencies on the Department of Education's fiscal year 1992 appropriation legislation called for GAO to review the National Technical Institute for the Deaf's fiscal and program operations. As agreed with the Committee's staff, our objectives were to (1) determine if NTID properly accounts for and spends federal funds, (2) assess NTID's long-term financial needs, and (3) evaluate Education's monitoring and evaluation of NTID.

We reviewed the laws and legislative histories relating to the establishment of NTID, as well as the agreement between Education and the Rochester Institute of Technology that designates RIT as the host institution for NTID and governs NTID's operations. We reviewed other pertinent studies, reports, and documents in gathering background information on NTID. We performed our work at NTID and RIT in Rochester, New York; Education's headquarters in Washington, D.C.; and the Department of Health and Human Services' Division of Cost Allocation in New York, New York.

To determine if NTID properly accounts for and spends federal funds, we examined NTID's budget requests, annual funding, and expenditures for fiscal years 1987 to 1992. We reviewed NTID's accounting records and financial operations. We surveyed procurement procedures in place at RIT and NTID and met with RIT's internal auditors to discuss their recent audit reports.

We performed a limited review of NTID's expenditures. We selected a judgmental sample of expenditures from NTID's check register, focusing on accounts over which NTID officials have discretion. We also reviewed a judgmental sample of expenditures previously audited by RIT's internal auditors. Most of our examples were selected from the accounts for travel and conferences, hospitality and receptions, and miscellaneous meetings. We did not attempt to identify all examples of questionable expenditures but enough to document the effect of the lack of federal cost criteria.

We evaluated NTID's long-term financial needs, in part, by comparing its past expenditures with anticipated future funding needs. We interviewed Education and NTID officials about recent and planned program and operating changes and their effect on NTID's future needs, particularly on the need for federal funds. We also discussed NTID's June 1992 Strategic Plan. (See app. IV for details on the plan.) We reviewed NTID's endowment fund program and RIT's policies on fund-raising.

To evaluate the effect of NTID's academic program changes in recent years on its long-term financial situation, we obtained trend information from 1980 to 1992 on student enrollment in technical and professional academic programs, transferability of academic credits from NTID to other RIT colleges, staffing levels, and foreign students. We examined specifically the composition and compensation of NTID's faculty and staff in light of changes in student enrollment.

To assess federal evaluation and monitoring activities, we interviewed financial and program officers of the Department of Education in Washington and HHS's Division of Cost Allocation officials in New York. We reviewed documents, reports, and records relevant to our review. We also met with RIT's external auditors to discuss how the OMB Circular A-133 audit was conducted covering RIT's fiscal years 1990 and 1991.

In reporting our results, we compiled program data, such as student enrollment, graduation details, faculty and staffing trends, and dormitory occupancy rates according to academic years. Financial data were reported according to fiscal years. NTID's fiscal year runs from October 1 to September 30, while RIT's fiscal year runs from July 1 to June 30. The academic year at NTID and RIT runs from August to June.

We conducted our review between June 1992 and April 1993 in accordance with generally accepted government auditing standards.

Unobligated NTID Funds Carried Over to Subsequent Fiscal Years for Deferred Maintenance Projects, Fiscal Years 1988-92

Fiscal year	Amount
1988	$476,393
1989	616,243
1990	863,192
1991	127,443
1992	835,847
Total	**$2,919,118**

Numbers of RIT Students Residing in NTID Dormitory and NTID Students Residing in RIT Dormitories, Calendar Years 1987-93

Year	Academic quarter	RIT students in NTID's dorm	NTID students in RIT dorms	Difference
1993	winter	253	192	61
1992	fall	268	199	69
1992	spring	213	172	41
1992	winter	249	182	67
1991	fall	258	189	69
1991	spring	224	157	67
1991	winter	248	224	24
1990	fall	270	219	51
1990	spring	277	161	116
1990	winter	281	196	85
1989	fall	284	189	95
1989	spring	274	181	93
1989	winter	284	191	93
1988	fall	327	227	100
1988	spring	213	187	26
1988	winter	221	209	12
1987	fall	239	227	12

Note: For the 17 academic quarters listed above, a total of 1,081 more RIT students lived in NTID's dormitory than NTID students lived in RIT's dormitories. The average was 64 students each quarter.

NTID's Strategic Plan

The development of a strategic plan was an outgrowth of NTID's decision to reevaluate its mission and educational priorities in 1990. NTID's executive directors issued the plan in June 1992. The plan includes NTID's mission statement and evaluates the needs of current as well as future students. The plan examines NTID's comparative advantages as an institution to meet the needs of its current and future students.

Each NTID program of study and service was reviewed in the plan along with recommended organizational changes. The plan recommended the elimination of some programs, such as medical laboratory technology and medical records technology. Others, such as data processing and optical finishing technology, were recommended for expansion. In addition, the plan recommended the establishment of several new programs, such as electronic publishing and imaging.

NTID is to implement fully the plan's recommendations by September 1994. The plan's emphasis was not to reduce NTID's budget or produce cost savings but to reallocate NTID's present resources while improving its effectiveness. NTID officials have no plans to request additional funds to implement the plan's recommendations because they believe that the plan's objectives can be achieved by reallocating NTID resources.

Funds Raised and Costs of Fund-Raising for NTID and Other RIT Colleges (in Thousands of Dollars)

	NTID's share			All other RIT colleges		
Fiscal year	Total funds raised	Cost	Return[a]	Total funds raised	Cost	Return[a]
1991	$651	$612	$1.06	$6,177	$1,886	$3.28
1990	513	600	0.86	9,612	1,952	4.92
1989	599	511	1.17	10,841	1,739	6.23
1988	112	540	0.21	7,801	1,750	4.46
1987	224	507	0.44	8,911	1,641	5.43
Totals	**$2,099**	**$2,770**	**0.76**	**$43,342**	**$8,968**	**4.83**

[a]Return represents the amount raised for each dollar spent on fund-raising.

Comments From the Department of Education

Matters for consideration omitted from final report.

Now on p. 3.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES

THE ASSISTANT SECRETARY

SEP 1 3 1993

Ms. Linda G. Morra
Director, Education and Employment Issues
Human Resources Division
United States General Accounting Office
Washington, D.C. 20548

Dear Ms. Morra:

I am pleased to provide the Department's response to the recent General Accounting Office (GAO) draft report, "Deaf Education: Improved Oversight of the National Technical Institute for the Deaf Needed" (GAO/HRD-93-113). The draft report was transmitted to the Department by letter dated August 12, 1993.

The draft report reflects the substance of several discussions held between the Department and GAO. Although GAO has included in its draft report matters for the consideration of the Congress, the report contains a number of concerns and findings that the Department intends to pursue as it carries out the statutory responsibilities for monitoring and evaluation of the National Technical Institute for the Deaf (NTID), which is funded under the Education of the Deaf Act of 1986, as amended (EDA). For example, GAO made several findings regarding NTID's obligation of funds. The Department has been aware that NTID has not expended funds in a timely fashion and has questioned the extent to which NTID has carried over funds. In the future, the Department plans to more closely monitor NTID to ensure that funds are obligated and expended appropriately.

The Department concurs with the report; however, there are some statements in the draft report with which the Department disagrees, and others we will seek to clarify through this response. The draft report implies that the Department has responsibility for direct management of NTID operations. For example, on page 4, para. 2, GAO cites the Department's "non-compliance with the requirement in its agreement with RIT and in the EDA to manage and oversee NTID..." This is not an accurate portrayal of the Department's responsibilities. As part of the Education of the Deaf Act of 1986, Congress made it clear that the Department was not to be involved in the day-to-day "management, policy-making process, or governance of NTID." (Senate Report No. 99-290, 99th Cong, 2d Sess., 1986, p.7.) The Rochester Institute of Technology (RIT) has responsibility for the management and operation of NTID under its agreement with the Secretary of Education. In fact, the statute directs the Secretary to **conduct monitoring and evaluation activities of the education programs and activities and the administrative operations of...NTID** (Title II, section 205, added 1986).

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Now on p. 3.

Linda Morra - Page 2

In addition, on page 4, para. 1, the draft report states that "[a]lthough required since 1986 by the HDA, Education has never evaluated NTID's education programs and activities and administrative operations." We disagree with this statement. It is important to note that the HDA does not specify the level or frequency of monitoring of NTID required of the Department. We agree that more in-depth monitoring and evaluation is warranted, and we are committed to fulfilling our responsibilities in this area. As we continue to work toward that goal, there are some existing mechanisms for monitoring and evaluation that are not reflected in the draft report. For example, one important way in which we have reviewed and addressed programmatic, administrative, and financial issues is through the annual budget process. We request very specific information from NTID and use this information in the development of the annual budget request to the Congress. Issues and questions are highlighted in the extensive materials which accompany the President's budget request to the Congress, and the Appropriations Committees often refer to these same issues and questions during their annual hearings and throughout the appropriations process. The budget process also provides a mechanism for the Department to at least indirectly propose remedial action, in the form of reducing the annual request for NTID, if warranted by actions taken by NTID or RIT.

It is also important to note that NTID receives a direct appropriation. Since NTID is not a grantee, the Department does not have authority to monitor against the federal cost principles that apply to grantees. The draft report mentions that the HDA Amendments of 1992 increase accountability for federal funds provided to and used by NTID. It was the Department's proposal which spurred the addition of these accountability provisions, and we intend to actively implement the provisions as we monitor and evaluate NTID.

In addition, the Education of the Deaf Act Amendments of 1993, Public Law 103-73, require the annual independent financial audit made of RIT programs and activities to contain specific schedules and analyses for all NTID funds, and such other supplementary financial information as determined by the Secretary. In the past, RIT's annual audit included NTID as a part of the whole institution, making it difficult, if not impossible to separately track NTID's use of federal funds. The Department proposed this amendment to clarify that specific audited information must be presented for NTID so that we could undertake closer monitoring and evaluation of NTID's financial activities. For the first time, as a result of action initiated by the Department, audited financial data on NTID will be provided to the Department using the Federal fiscal year starting in fiscal year 1995.

Linda Morra - Page 3

Finally, we note that the EDA Amendments of 1992 made significant changes in operation and reporting requirements for NTID, thus expanding the Department's monitoring and evaluation responsibilities. Many of these changes were proposed in the Administration's bill. For example, the information requirements of the annual report submitted to the Secretary are expanded, and a new provision authorizes the Secretary to request any additional information that may be considered necessary. We expect the new annual reporting requirements to provide another mechanism for reviewing and evaluating specific areas of NTID's programs and activities. The specificity of the information, on an annual basis, will give the Department the opportunity to see differences in enrollment data, student outcomes and programming, employee data, financial statements, and Endowment Program funds usage. The Department will scrutinize this information carefully and use it to review NTID's programs and activities. The 1992 Amendments also included, for the first time, authority for appropriations necessary to conduct monitoring and evaluation activities.

Corrective Action

The Department plans to increase its monitoring efforts and follow up on the GAO findings to ensure that appropriate corrective actions are taken.

GAO's review of NTID comes at an opportune time. The draft report identifies several key areas that we will focus on as we work with RIT to carry out the statutory requirement to assess the need to modify the current Agreement for the operation of NTID. We will use this process to identify revisions or additions to the agreement necessary to remedy problem areas identified by the GAO report. A key aspect of that review will be increased oversight of operations as necessary and appropriate within the scope of authority given to us by the Congress.

Thank you for giving me the opportunity to comment on this draft report. Members of my staff and I are prepared to respond if you or your staff have any questions. Please feel free to contact Susan Murray or Fran Parrotta of my staff at (202) 205-8196. I have provided a few technical comments related to the draft report that are included as Enclosure A.

Sincerely,

for Judith E. Heumann

Enclosure

Comments From the Rochester Institute of Technology

R·I·T

Rochester Institute of Technology

National Technical Institute for the Deaf
Lyndon Baines Johnson Building
52 Lomb Memorial Drive
Rochester, New York 14623-5604
716-475-6400 Voice or TDD
716-475-6500 Fax

September 13, 1993

U.S. General Accounting Office
Ms. Linda Morra
Director of Education and Employment Issues, HRD
NGB - E and E
Suite 650
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Morra,

Enclosed you will find our overall reaction and more specific responses to concerns raised in your Draft Report, Deaf Education, Improved Oversight of the National Technical Institute for the Deaf Needed. We very much appreciate the GAO's willingness to meet with our representatives last week and we hope that the final document is the better for it. At that meeting RIT/NTID and GAO officials agreed that the Draft Report would be modified to some extent. To what extent is not entirely clear, so the "issues" we have responded to may, in fact, now be "non-issues" or changed in some way.

We would hope we might get a look at a "revised" draft before it goes to final print. We think it would be quite helpful to all parties concerned. We don't want to miss anything, nor do we want to appear overly defensive where we don't have to be.

If you have any questions, please don't hesitate to call on either of us or our designated representative, Wendell S. Thompson.

Yours Truly,

William Dempsey
Vice President, RIT Finance and Administration

William E. Castle
Vice President and Director, NTID

RIT RESPONSES TO GAO CONCERNS
September 1993

OVERALL REACTION:

RIT and NTID officials feel that the general tone of the Draft Report and in particular the "Results in Brief" is entirely too negative with respect to RIT's and NTID's handling of federal funds. Absent specific cost criteria or specific instructions from Education or Congress, it is difficult to suggest that RIT or NTID did anything contrary to regulations. The fact that RIT did not separately match certain expenditures with federal funds, but rather accounted for all expenditures against all sources of revenue, seemed more appropriate to RIT in the name of full disclosure. Since there were no unallowable expenditures until the 1992 amendments to the Education of the Deaf Act (EDA), there was no reason to separately account for federal expenditures.

We are concerned that a reader of this report might conclude that RIT has not properly stewarded its federal funds. The limited findings do not support this overall negative conclusion.

RIT DOES NOT ADEQUATELY ACCOUNT FOR ITS FEDERAL FUNDS

RIT concurs that expenditures of federal and non-federal funds have not been separately identified on its general ledger. Federal appropriations received are, of course, separately identified. In the past, we have reported to the federal government all expenditures of NTID, reconciled with all revenue sources, both federal and non-federal. As a partner in the provision of educational programs for the deaf, NTID felt Education should be aware of how all funds were spent. Education has accepted this reporting format without comment since NTID's inception.

The Agreement and the EDA of 1986 are silent with respect to cost criteria. Section IV, Payments and Refunds, of the Agreement states that "The Secretary will make the federal funds appropriated for the benefit of the Institute available to the Sponsor in the manner set forth in this paragraph during the term of this Agreement and the Sponsor agrees that said funds will be used only for the purposes for which paid and in accordance with the applicable provisions of the Act and this Agreement made pursuant to said Act." The EDA states in Section 202 (b) that "The agreement shall– (1) provide that Federal funds appropriated for the benefit of the Institute will be used only for the purposes for which appropriated and in accordance with the applicable provisions of this Act and the agreement made pursuant thereto;...." However, there are no specifics as to any cost criteria in either document, except that inasmuch as the Agreement incorporates and makes a part of, the Policies, Guidelines and Applications Procedures, which states in Section XXII, page 23, that "all contemplated and budgeted items for salaries, travel costs, retirement, insurance, sick leave, annual leave, sabbatical leave, service charges, etc. must conform to the standard rates and policies of the sponsoring institution". Therefore, absent any other contravening cost principles, RIT has used its own policies and practices to guide its operation of NTID, and this is the presumption under which RIT has operated NTID for 25 years, without objection or comment from Education or Congress.

Until the 1990 Appropriations Bill, there were, in fact, no specifically unreimbursable expenditures except those that were not ..."in accordance with the purposes for which Congress appropriated them...." or did not follow RIT policy and practice. That particular appropriations bill and ones thereafter prohibited the use of federal funds to support travel to foreign countries for the purposes of recruiting foreign students. At that point in time, RIT set up an accounting mechanism to match non-federal revenues with this particular expenditure to assure that federal funds were not spent for this activity. Since then it has been expanded to include alcohol, as RIT unilaterally decided to cease charging the federal government for these purchases in December 1991.

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With the development of new cost criteria in accordance with the 1992 amendments to the EDA, NTID is in the process of reviewing its internal accounting structure in order to segregate those expenditures that will be funded by the federal appropriation from those expenditures that will funded from non-federal sources.

RIT IMPROPERLY CARRIED FORWARD UNOBLIGATED FEDERAL FUNDS

NTID felt and still feels that the requirement that all funds be obligated via purchase order by the end of the fiscal year promotes a "use it or lose it" mentality. It has been the RIT's intent to properly manage the federal funds appropriated for the operation of NTID, and to live within its budgeted means. Deferring decisions regarding equipment purchases and capital maintenance projects until funding availability through budget management could be confirmed has been intended to serve as proper control over federal funds. It is not the intent of RIT or NTID to deceive the federal government, but rather to prudently manage its appropriated resources. In fact, NTID has consistently communicated with the Department of Education and Congress regarding the allocation of unexpended funds to various deferred maintenance projects at year end. In addition, it is important to point out that NTID never received the funds until it certified to Education that it had spent the funds. These funds were held by the US Treasury, accounted for by Education and expended only for the maintenance purposes as originally intended and only when the cost was actually incurred. These funds were never used to supplement expenditures in the next fiscal year, except in 1992, when NTID specifically asked and received the permission of Education to do so. The Congress was informed of this as is documented in the 1992 House Testimony (see attachment I). Attachment II details all of the expenditures and clearly shows, with the exception of 1992, that the funds were used for capital projects as originally intended.

Appropriation increases in recent years have been only 2 - 3 percent, while RIT-wide salary and benefit increases have been 5 - 6 percent. Since salary and benefits costs constitute a substantial portion of the operating budget, annual operating budgets have been very tight. Therefore, expenditures for equipment or other capital projects have not been approved until the end of the fiscal year. At that point, the funds remaining (not surplus) are then allocated to the purchase of equipment and to specific maintenance or renovation projects.

Practically speaking there are other reasons for deferring obligations beyond the end of the fiscal year. It is not readily possible to determine the amount of remaining funds NTID has at the end of the year and then immediately obligate them on a purchase order. NTID knows what the needs are, but it needs to get bids or do comparative pricing before it can obligate the funds on a purchase order. For NTID to have obligated these funds earlier in the year would have meant that it would have run the risk of overspending its appropriation. Another reason for deferring a particular project is that the RIT Physical Plant Services does not always have the staff resources available to complete approved projects at the same point that NTID has the funds available. For example, when RIT experienced a problem with asbestos in its dormitories a few years ago, all other projects, including NTID's, were deferred. Thus, appropriated funds for designated projects were carried forward, though the funds were not drawn from the treasury.

At the exit conference with the GAO and RIT officials, GAO said it recognized that there was a benefit to the federal government of having NTID manage its funds this way, but that it was not according to established government accounting policy. NTID maintained that it had managed its funds this way for many years with the full knowledge of Education and there was never any indication from them that it was inappropriate.

With regard to the specific instance of utilization of deferred maintenance funds for installation of strobe light fire alarms in RIT residence facilities where NTID students were living, NTID concurs

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that it should have communicated better with the Department of Education regarding its plans. However, student safety was the overriding concern which drove the decision.

Two years ago, NTID experienced a full scale student protest with respect to safety and accessibility for deaf people on the campus of RIT. One of the major demands and, therefore, components of the settlement, was the issue of safe and accessible dorms and apartments. Thus, a commitment was made to install strobes in apartment units and dormitory rooms occupied by deaf students by the fall of 1992.
The most important issue at the time was the safety of deaf students. They were already living in the apartments and other RIT dormitory rooms, and NTID felt that it could not prevent them from doing so, especially in light of the protest and NTID's well-expressed policy on integrated living.

RIT is entitled to have the federal government pay for the cost of these strobes by virtue of the Agreement which sets forth that the federal government will reimburse RIT for reasonable costs in educating deaf students. If RIT had the funds available to finance the project, which it did not, it could have purchased the strobes on its own and recovered the cost through depreciation fully allocable to NTID over a five year period. In the future, RIT will work more closely with the Department of Education to explore the various alternatives for funding and recovering project costs of this nature.

In summary, carry-over funds are not surplus funds. They are essential to the operation of NTID. It is important to understand the magnitude of the deferred maintenance funds being discussed. Over the five-year period reviewed, $2.9 million was carried over for deferred maintenance. During that same time, NTID had total expenditures over $210 million. The carry-over amounts to 1.4% of total expenditures. There were no unexpended federal funds remaining as of August 1993. All previously unobligated, unspent federal funds have been expended. In the future, specific expenditures will be matched against federal appropriations. For example, expenditures for salaries, benefits, institutional services, utilities, cross registered tuition and the like could be budgeted and charged against federal funds. Other accounts such as hospitality, travel, consultants, supplies, deferred maintenance and the like could be budgeted and charged against non-federal funds. It should be noted that accounts supported by non-federal funds may also be appropriate for federal reimbursement. However, for accounting purposes, they may be charged to non-federal funds. In the end, this should eliminate federal funds from being carried over.

If NTID were a free standing university, carrying over funds would be normal and expected. All colleges and universities attempt to manage their budgets in such a way as to generate end-of-the-year dollars for their plant fund to take care of essential maintenance needs. Plain and simple, RIT's practice with respect to NTID has been to emulate the plant fund concept. Deferred maintenance has been the vehicle for doing so. The problem is that it does not meet federal accounting guidelines. Once deferred maintenance is charged to non-federal funds, the problem will be resolved without threatening NTID's ability to maintain its physical plant.

SOME NTID EXPENDITURES MAY HAVE BEEN IMPRUDENT OR IMPROPER

All expenditures in these categories were made directly or indirectly on behalf of NTID students and in keeping with the mission of NTID. The gifts were in recognition of service to NTID by employees and special guests of the institute, and the contributions always had a relationship to NTID, either for the purposes of furthering an NTID presence in the organization, recruitment of students, or for fund-raising.

To suggest that some of NTID's expenditures may have been "improper" is inappropriate and objectionable. It has been established that existing federal cost principles were not included in the

Agreement or the Education of the Deaf Act (EDA) of 1986 to reimburse NTID costs during the period under review. With only the mission of NTID and RIT policy and practice as a guide, it is difficult to understand how NTID or RIT can be in violation of federal cost principles that did not, heretofore, exist.

Prior to October of 1992, there were no specific restrictions prohibiting the purchase of alcohol or the expenditure of NTID funds for lobbying or other specific items. The Institute voluntarily excluded direct lobbying costs with respect to the federal government from all reimbursement requests. Beginning in December of 1991, the Institute did the same with alcohol purchases.

Expenditures for hospitality generally represent recognition of long-term service of employees or superior contributions to NTID activities. The expenditures at one local restaurant mentioned amounted to approximately $8,000 per year, of which approximately 75% relates to annual length of service dinners recognizing employees having 10-year and 20-year anniversaries with NTID. These events serve to improve employee morale by recognizing and appreciating long service. These are employees whose average salaries in 1992 were $42,758 for faculty, $28,512 for professional staff and $17,160 for clerical staff. From NTID's perspective, recognition is an essential component of a total compensation package that is modest at best.

The gifts and gratuities mentioned included items given to employees or special guests of the Institute. The liquor store purchases were for bottles of wine given as holiday gifts to employees. Of the $3,000 total, $1,962.07 was charged to the federal government as the expenditures occurred in August 1991 prior to the policy change. The remaining $1,163.06 was, in fact, charged to non-federal funds as the expenditure occurred in January 1992 after the policy change.The crafts, vases, and jars were given to special guests of the Institute. In the future, expenditures of this type will be subject to new cost principles required by the 1992 Amendments to the Education of the Deaf Act which were submitted for review to the Department of Education in May, 1993 and are intended to become effective as of October 1, 1993. The proposed cost principles generally prohibit gifts for staff and others, except those related to length of service or merit awards.

It is important to point out that the Cost Principles proposed by NTID go well beyond the requirements specified in the EDA. The EDA addressed only direct costs (omitting indirect costs) and made 5 items expressly unallowable and called for cost principles to address appropriateness of 8 other items of cost. NTID's cost principles address both direct and indirect costs, make 13 items of cost unallowable (including the 5 required by the EDA) and establish cost principles on another 50 items of cost (including the 8 required by the EDA). The final product is a comprehensive set of cost principles modelled after OMB Circular A-122, Cost Principles for Non-profit Organizations and OMB Circular A-21 where appropriate, which will vastly improve the effectiveness of the annual A-133 Audit.

The dinner "celebrating the wedding" involved a former employee who is currently providing interpreting services to NTID students as an independent contractor. This contract interpreter had responded on a number of occasions at the last minute to emergency requests for interpreting services at NTID, and the dinner was a small token of appreciation for her efforts of behalf of NTID. The documentation for the event was certainly lacking and has been pointed out to the party in question. However, the intent was in keeping with the mission of NTID.

The dinner in honor of Russian visitors from the Moscow State Technical University, an institution with which NTID has a sister-institution relationship, was a reciprocation for hospitality shown to NTID visitors on a previous trip by them to the Soviet Union.

The donation to the local hospital was made by an officer of the Institute who was asked by the President of RIT to become a director of the organization, because of RIT's and NTID's long association. Both RIT and NTID students have cooperative work experiences at the hospital as part

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of the medical laboratory technology program. In addition, awareness and understanding of how to access the health care system has been a major outreach objective for NTID. As a member of the board of the directors, the individual in question was able to initiate a joint educational outreach program for deaf people between the hospital and NTID that is being conducted this academic year. It is anticipated that the model developed will be generalizable to other health care facilities.

Like other officers of RIT who serve on boards of directors, this individual made a small donation of institutional funds in recognition of RIT's continuing interest in the association. This is standard practice for RIT officers to donate monies from their operating budgets. In the case of this particular officer, the donation was made from his NTID operating budget, meaning some federal monies could have been used for this purpose. In the future, the new cost principles will serve to eliminate the possibility of federal funds being used for this purpose.

The table purchased by NTID from the non-profit organization referred to is the Alexander Graham Bell Association, which does far more than simply promote the general welfare of deaf people. It is one of only a few pre-eminent organizations serving the deaf, that NTID finds essential to information exchange, recruitment of students and fund raising. It is the only organization for the deaf that strongly promotes the concept of mainstreaming, which is a key concept at NTID regarding education and employment of its students. The $10,000 in question was used to buy a table at their annual fund-raiser. Congressional staffers were invited as a strategy to increase their awareness and sensitivity to deafness. No federal funds were used for this purpose in 1993, and none will be used in the future.

NTID is also in the process of paring down and establishing a list of organizations serving the deaf with which it should remain affiliated. In addition, the kind and level of support is also being addressed.

The $15,848 expenditure referenced was NOT an advance of funds or contribution to the International Deafness Outreach, Inc. (IDO). It was never paid to the IDO. NTID funds were used to pay expenses associated with a visit of representatives of the Chinese Education Department to NTID for the purposes of developing a feasibility proposal for a program like NTID's in China. As a result of an internal review of the expenditure at a later date, NTID officials felt that the expenditure was more related to the mission of the new IDO than to the mission of NTID. Therefore NTID requested and received a reimbursement from IDO for the full amount.

Each of the areas of concern above had been previously identified in internal audits performed by RIT's internal audit function. These expenditures were pointed out to management as being areas that could be called into question by external auditors, inspite of their legitimate purpose. As a result, policy changes were made prior to the GAO review (e.g. exclusion of alcohol, better documentation, etc.)

With respect to the GAO's concern regarding a possible RIT Ethics Policy violation, it must be pointed out that RIT's ethics policy for Executives and Trustees does not "...prohibit even the appearance of a conflict of interest for its employees." It says that "...they shall exercise particular care that no detriment (or appearance of detriment) may result from a conflict between their private interests and those of RIT." Nothing identified by the GAO regarding RIT officers or employees is in violation of RIT's Executives and Trustees Policy on Conflicts of Interest. Certainly there is no detriment to RIT. The two organizations referenced are the Alexander Graham Bell Association (AGB) and International Deafness Outreach, Inc. (IDO), both not-for-profit organizations, whose missions are consonant with those of NTID.

For the IDO, the mission is to create and expand educational and social opportunities for persons who are deaf, or otherwise suffer from impaired hearing, throughout the world with a particular emphasis on career development. Among its objectives are:

(a) Assisting and providing students who are deaf with information and counsel for programs, services, and/or other means, including financial support, in their pursuit of career opportunities in professional, technical, vocational, and service related fields and disciplines;
(b) Promoting and expanding the continuing career education opportunities for deaf persons in order that they develop their own overall career and social skills in the workplace and in the community;
(c) Providing scholarships for highly qualified deaf students from an international pool of applicants. Additionally, seeking highly qualified deaf and hearing interns to study at the Rochester Institute of Technology, home of the National Technical Institute of the Deaf;

The IDO has already been successful in bringing $1,000,000 to NTID through the Sasakawa Foundation in Japan. These monies will be matched by the U.S. Government, and the income from the private portion will be used to support international students at NTID in the form of scholarships.

The Alexander Graham Bell Association for the Deaf is a non-profit organization founded nearly 100 years ago to help hearing-impaired persons function independently in the mainstream of society. Named for its founder, the association promotes universal rights and opportunities for hearing-impaired people--from infancy through adulthood--to learn, use, maintain, and process spoken language. Alexander Graham Bell believed that all hearing-impaired children should have the chance to learn how to speak, lipread, and use whatever hearing they possess.

The Association serves hearing-impaired children and adults, their parents, and families, and professionals in the field through services devoted to the special needs of each group. Some of the objectives of the organization are to:

- Work for better educational opportunities for hearing-impaired children.
- Provide scholarships and financial aid programs for hearing-impaired individuals from infancy through college.
- Encourage networking with teachers, physicians, audiologists, and speech-language specialists to promote educational, vocational, and social opportunities for hearing-impaired persons of all ages.

This organization has among its members many people who are potential donors to NTID. Having had the Director of NTID as its President has served both AGB and NTID well.

Both of the organizations in question benefit RIT immeasurably, and no actions taken by any of the individuals in question are in detriment or appear to be in detriment of RIT. Nor is service to either of these organizations a "private interest." These individuals are doing what they are encouraged and expected to do by virtue of their positions. It is NTID's position that the benefits of the association certainly outweigh any possible appearance of conflict of interest.

SOME RIT CHARGES TO NTID ARE INAPPROPRIATE

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The audit report questions the appropriateness of certain charges included in the overhead charged to NTID and also certain dormitory costs. The overhead charged includes a small portion related to the staff time and supporting costs of internal lobbying efforts, although payments to outside lobbyists had been excluded. The Institute was proactive in excluding the external lobbying costs voluntarily, though there were no cost principles prohibiting their inclusion. The internal costs relate primarily to lobbying activities at the state level. These state efforts often result in scholarship dollars from the State of New York which are granted to RIT students, both hearing and deaf. In accordance with the 1992 revisions to the Education of the Deaf Act, and as included in the Cost Principles submitted for review this spring, the Institute has agreed to remove those costs in the future to avoid any possibility of a violation of the EDA and the new Cost Principles.

With regard to the dormitory costs, the Institute does not believe that NTID is being inappropriately charged. When the NTID campus was constructed, it included a dormitory with the capacity to house the anticipated NTID enrollment. It was agreed that the cost of operating and maintaining this dormitory was an appropriately reimbursable cost. In subsequent years, RIT and NTID encouraged integration of the hearing and deaf populations for programmatic reasons. This provided hearing and deaf students greater opportunities for interaction, thereby enhancing their educational experience. NTID continued to pay for the one dormitory which it would have paid for had the integration not been encouraged, which guaranteed it 800 dorm spaces anywhere on campus (800 is the capacity of the NTID dormitory).

RIT does not control the number of hearing students in the NTID dormitory or the number of NTID students in its other dormitories. The institute has the capacity to house all hearing students in dormitories other than that operated by NTID. It is conceivable that NTID students could be returned to their dormitory, at which time the full cost of operating the building, whether or not occupied to capacity, would be chargeable to NTID. It is the position of the Institute that this approach is not in the best interest of the students.

NTID'S NEED FOR FEDERAL FINANCIAL SUPPORT WILL CONTINUE

Cross-registration is Increasing and Costly

NTID does not encourage cross-registration as a strategy to maintain enrollment. Cross-registration is encouraged to facilitate NTID students in maximizing their potential for personal and professional growth. Research has shown that students who attain B.S. degrees vastly improve their earnings potential. In fact, they earn 92 percent of what their hearing peers earn with the same educational background and pay back the federal government the cost of their education in the form of income taxes in just over 10 years. The disparity in earnings and, therefore, taxes paid between hearing and deaf individuals widens at the lower degree levels.

At the same time, it is important to point out that NTID certificate, diploma and associates degree programs were designed to prepare students to achieve entry level positions in business and industry. As a result, there are many courses required for achieving the AAS degree at NTID which are not required for achieving the BS degree. For example, in the area of Applied Computer Technologies the focus of the curriculum is on operations of computer equipment, and students majoring in this area take approximately 20 hours of course work in computer operations. These courses have no direct applicability to baccalaureate majors offered by the other colleges of RIT, where the emphasis is on programming and systems design. In addition, many associate degree graduates of Technical Programs transfer to bachelor level programs unrelated to their programs of study at the associate degree level.

Most students who begin their course of studies in the college of NTID do not have the basic English skills required to pursue studies at RIT. For example, on the average students in technical

programs have entry reading grade levels of approximately 8.0. Deaf students who have entered RIT directly to pursue BS degrees have average reading levels of 10.0. These Technical Program students must take a number of additional English courses if they are to go on to Professional Programs at RIT and compete with other students at RIT. In addition, students majoring in programs offered by the college of NTID are required to take approximately 12 credit hours which improve communication skills such as speech reading, speech, sign language and auditory discrimination. None of these compensatory education courses, in English or Communication, are acceptable as credit toward the BS degree at RIT.

It is a credit to NTID's academic programming, that a 20 year old deaf student entering NTID who has an eighth grade reading level, is able to obtain a BS degree from a university such as RIT. Research conducted by Educational Testing Service (Rogosta and Harrison, 1985) indicates that the average freshman NTID student has a combined Scholastic Aptitude Test score of about 673. This compares to an average of approximately 1050 for hearing RIT Freshmen. This great difference in Scholastic Aptitude Test scores between deaf and hearing RIT students clearly indicates that the colleges of RIT are extremely flexible in admitting deaf students to their programs. These students would not be admitted to baccalaureate programs at most colleges or universities in the United States.

As pointed out in this report, NTID recognizes that increased transferability of credits is a worthy goal and is endeavoring to increase the number of articulation agreements it has with other RIT programs. However, the fact remains that this is not about simply moving from a two year program to a four year program; this is about moving a deaf individual with 8th or 9th grade entry level skills to a place where he or she can compete successfully with his or her hearing peers.

NTID Faculty have not Decreased Proportionately with Enrollment

Enrollment has declined because NTID experienced a major spike in its enrollment in 1983 due to a maternal rubella epidemic back in 1963-65. This epidemic caused the birth of twice as many babies born deaf as would normally be born over this same period. This group of deaf children reached NTID in 1983 and caused its enrollment to jump from 993 in 1982 to 1260 in 1983 and peak at 1319 in 1984. This was a one-time 30 percent increase in students that required approximately 7 years to fully accommodate. It wasn't until 1990 that enrollment normalized at around 1100 (approximately 100 students more than in pre-rubella years). One of NTID's strategies to accommodate this temporary phenomenon was to make liberal use of adjuncts and other staff members who had the qualifications to teach. For example, in 1987 there were 300 sections of 155 technical courses being taught in technical programs (doesn't include math, english, audiology, speech, etc.). Of these 300 sections, 66 were taught by adjuncts or other qualified NTID staff members. By contrast, in 1992 there were 275 sections of 174 technical courses being taught and only 20 of those sections were taught by adjuncts or other NTID staff members. As a result, the level of work for permanent faculty has remained the same or even increased somewhat as the adjuncts and others have been phased out (see attachment IV for more detail).

Also, during the time period from 1987-88 to 1992-93, there has been a 34.1% increase in students registered in professional programs and the student/faculty ratios have increased from 6.6:1 to 7.7:1. One of NTID's strategic planning objectives is to reallocate faculty resources from technical programs to professional programs. However, this has not happened as expeditiously as NTID management would like due to tenure and faculty rights considerations.

NTID's Endowment will not Offset the Need for Federal Support Soon

As of September, 1993, NTID has raised sufficient private endowment dollars to match all federal funds that are currently available, including the $181,000 from FY 92 and the $336,000 available in FY93.

By its nature, an endowment fund is an investment in the future of an institution. Restrictions on the amount of income to be expended are set by law (as in this case) or by action of the institution's Board of Trustees, and restrictions as to the purpose of the income expended are often set by the original donors. Nearly 85 percent of the donor contributions to the NTID endowment pool has been restricted to the support of student financial aid by the original donors. As the fund grows over time, it is anticipated that the unrestricted portion of the income will increase.

Fundraising for all of RIT, including NTID, is handled through the Institute's Development Office. All fund-raising efforts are coordinated centrally to achieve efficiencies and to prevent duplication of requests for support. NTID is not subject to any restrictions that are different from those placed on any other college of the Institute. This coordination is common among most universities to prevent the obvious embarrassment to the Institute and annoyance of prospective donors who are solicited by officers representing each of the separate colleges of the Institute.

Costs of the Development Office are included in the General Administrative Pool within the Institute's overhead study, and this pool is allocated based upon modified total direct cost. Since NTID represents 24.5% of the modified total direct cost of the Institute, it bears that portion of administrative expense.

During the period under review, two of the fourteen development officers were dedicated to fund-raising for NTID. Also, one of the five tele-fundraising events was dedicated to raising money for NTID. Donor research, gift processing, and other support services are also provided centrally. In addition, of course, a portion of the time of the Director of Development and the Vice President for Development is devoted to NTID matters.

Of the $612,000 of development costs paid by NTID, approximately $280,000 can be identified as expenditures directly relating to the salaries and supervision/support of the fundraisers specifically focused on NTID fundraising. It is this figure which should be compared with the $651,000 of gifts received specifically for NTID, resulting in $2.20 received for every $1 expended for this effort.

The remaining $332,000 of expenses relates to NTID's support of the Institute-wide development effort. Total development costs were $2.5 million. Removing from this amount the $280,000 of direct NTID costs, the balance is $2.2 million. NTID students, the faculty and staff all benefit from the general institute advancement created through the overall development function. Institute-wide fundraising supports the student living and academic support functions of the campus, all of which benefits are shared throughout the Institute. NTID's support of 15 percent of these costs compares with the following statistics:

Modified total direct costs	24.5%
Salaries and wages	26.2%
FTE Students	12.0%
FTE Faculty and Staff	23.0%

While it is important to review the cost allocation for appropriateness, one might also look to enhancing the revenue produced rather than reducing the cost incurred in this area. Some donors must be cultivated over a period of years before substantial donations are received, and this cultivation should be viewed as an investment. RIT is currently conducting a search for a new Vice President for Development, and it is expected that this individual will revitalize and perhaps restructure the development organization. Once a new structure is in place, the cost allocation will

be reviewed for applicability, and is hoped that the revenue generated by the operation will increase. The combination of these factors should result in a greater return on the investment of development costs for NTID.

REQUIRED FEDERAL AND EXTERNAL REVIEWS OF NTID HAVE NOT BEEN MADE OR ARE INEFFECTIVE.

It was never clear from the language in Act whether it was referring to NTID or RIT. Since NTID is not a financial or legal independent operating entity, the annual independent audits of RIT and the A-133 Audits were deemed to be in compliance with the Act.

Section 403 (b) of the 1986 Act states the following:

> *"... the institution of higher education operating the National Technical Institute for the Deaf shall have an annual independent audit made of the programs and activities of ... the Institute ..."*

This subject came up recently with Education as they were preparing technical amendments to EDA. The language was clarified in section 204, paragraph 3 to read as follows:

> ". . .(B) The annual audited financial statements and auditors report of the institution of higher education with which the Secretary has an Agreement under section 112, including specific schedules and analyses for all NTID funds, as required under section 203, and such supplementary schedules presenting financial information for NTID for the end of the federal fiscal year as determined by the Secretary."

Now there is no doubt that the audit refers to RIT as a whole and not to NTID and that Federal financial/compliance reporting requirements of NTID are fulfilled when independent audits are conducted on RIT as a whole.

RIT takes its stewardship responsibility of federal funds seriously and has therefore fulfilled its financial/compliance audit obligations by having had annual independent audits done long before the inception of NTID. Also, since 1984, single audits have been performed under the requirements of OMB Circular A110 and A133. The single audit concept provides one comprehensive audit of all federal contracts and grants for an entity. This concept has been adopted by the Office of Management and Budget and applies to all federal agencies including DOE and DHHS.

Since the Institute began having A110 and A133 audits performed in 1984, the appropriation for NTID for this period totalled approximately $293,711,000. The dollar amount of transactions tested which related to NTID's operations for this same period totalled $40,374,751 (13.75%). Provided in the OMB circulars is the option for any agency requiring further audit work to request such work. No additional requests have ever been made by a federal agency receiving these reports.

These financial/compliance oriented reports were never intended for program review purposes. The independent program review requirements specified by the Act of 1986 have instead been satisfied by the periodic accreditation review process of the Middle States Association of Colleges and Schools and their report issued as part of that process.

Regarding the statement that Education does not use NTID's Annual Report to assess the effectiveness and efficiency of NTID, it is important to state that no annual report is capable of objectively assessing the effectiveness and efficiency of that organization, because it is produced by the organization itself. The NTID Annual Report does only what it is capable of and intended for:

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to report on its activities for the year to the Secretary as required by the EDA. Evaluation and monitoring is the responsibility of Education. Certainly, the NTID Annual Report can be used to some extent for that purpose. It cannot, however, be the sole sourcebook for that activity.

NTID presented a recommended Oversight Process to the Department of Education in May 1993 as a possible solution to the need for increased oversight. It is a process that capitalizes on resources and processes that are about to be implemented or already in place (see Attachment V).

Comments From the Department of Health and Human Services

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

SEP 13 1993

Ms. Linda G. Morra
Director, Education
and Employment Issues
United States General
Accounting Office
Washington, D.C. 20548

Dear Ms. Morra:

The Secretary had asked me to respond to your draft report, "Deaf Education: Improved Oversight of the National Technical Institute for the Deaf Needed." Department officials have reviewed this report with interest and have no comments to make at this time.

Thank you for the opportunity to respond to your report before its publication.

Sincerely yours,

for

Bryan B. Mitchell
Principal Deputy Inspector General

Major Contributors to This Report

Human Resources Division, Washington, D.C.	Larry Horinko, Assistant Director, (202) 512-7001 John T. Carney, Senior Evaluator Liz Williams, Editor
New York Regional Office	Frank F. Putallaz, Regional Management Representative Claire L. Gambaccini, Evaluator-in-Charge George F. Degen, Evaluator Despina Hatzelis, Evaluator Ralph Meister, Evaluator
Office of the General Counsel, Washington, D.C.	Barry Bedrick, Associate General Counsel Robert G. Crystal, Assistant General Counsel Mary W. Reich, Attorney-Advisor

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